

**PUBLIC HEARING
ON
THE FISCAL YEAR 2014 BUDGET
OF THE OFFICE OF
THE CHIEF FINANCIAL OFFICER**

**Before the
Committee on Finance & Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**April 30, 2013
John A. Wilson Building
Council Chambers**



**Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia. I am here for your annual hearing to testify on the FY 2014 budget request for the Office of the Chief Financial Officer (OCFO).

My colleagues have also prepared testimony and are with me to help address specific issues or answer questions that the Committee may have. By way of introduction, with me are: Anthony Pompa, Deputy CFO for the Office of Financial Operations and Systems; Jeffrey Barnette, Deputy CFO for the Office of Finance and Treasury; Stephen Cordi, Deputy CFO for the Office of Tax and Revenue; and Fitzroy Lee, Deputy CFO for the Office of Revenue Analysis. Gordon McDonald, Deputy CFO for the Office of Budget and Planning, appeared before the Committee of the Whole on April 11th, but is here today to answer questions. In addition, Buddy Roogow, Executive Director for the DC Lottery, who testified earlier today, is here. (Please see Attachment 1 – OCFO Organization Chart)

OCFO BUDGET EVOLUTION

The OCFO takes seriously its responsibility to operate cost-effectively in order to protect the District's fiscal and financial viability and to preserve and enhance

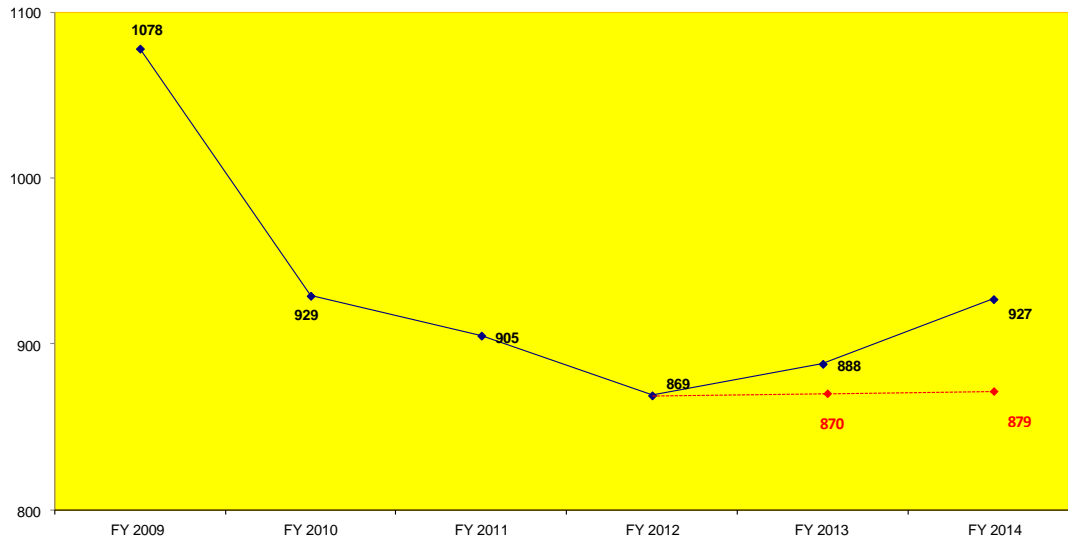
its revenue stream. Since 2009, when total authorized FTEs reached 1,078, the OCFO has progressively become a leaner organization. In FY 2009, facing budgetary pressures, we restructured our office to better align available resources. Since that time, OCFO FTEs have declined by 18 percent, with a corresponding decrease in our gross funds budget of 15 percent. (See Figure 1)

The FY 2013 gross funds budget for the OCFO is \$136.5 million. Attachments 2 and 3 show year-to-year changes in the OCFO budget by program and fund type from FY 2011 through FY 2014.

For FY 2013, 888 FTEs are approved -- 2 percent less than the FY 2011 approved FTE level of 905, but 2 percent more than the FY 2012 approved level of 869, due largely to Mayoral-mandated initiatives designed to maintain and enhance the District's revenue stream.

While maximizing efficiency, the OCFO has continued to meet or exceed its performance mandates, including those related to the procurement of services from local, small, disadvantaged business enterprises, known as Certified Business Enterprises or CBEs.

Figure 1
OCFO Budgeted FTEs FY 2009-FY 2014



OCFO FY 2014 PROPOSED BUDGET

The proposed FY 2014 gross funds budget for the OCFO is \$137.9 million, an increase of 1 percent above the FY 2013 approved level and includes a net increase of 39 FTEs. Again for FY 2014, this increase in funding and FTEs is required to sustain and enhance the District's revenue stream.

As Figure 1 indicates, without the inclusion of the initiatives, the OCFO FTE level would be at 879 in FY 2014 – an increase of 1% for the two year period -

and our gross funds budget would have decreased. Briefly, the FY 2014 initiatives include:

- Automated Federal Revenue Initiatives – This revenue initiative adds staff to make use of new federal match programs related to sales tax, withholding tax, and non-filers.
- Enhanced Income Tax Match Programs and Improved Payment Plan Compliance Initiative – allows:
 - enhanced detection of income tax errors and/or abuse relating to federal match programs for Adjusted Gross Income (AGI), Earned Income Tax Credit (EITC), and itemized deductions.
 - direct debit of payment plans for delinquent taxpayers.
- Expansion of Enforcement Efforts for Ball Park Fees - (Requires a change in current law). OTR is legally restricted from applying the standard enforcement tools to collect delinquent amounts from payers of the Ballpark Fee. A law change to remove this restriction should yield significant returns.

Taken together, the OTR initiatives are expected to return \$13.5 million in revenue in FY 2014, a return of over 3 to 1, and a total of \$41.5 million throughout the financial plan period. A list of these initiatives is located in Attachment 4 of my testimony.

We cannot sustain these revenue-generating projects, however, without the necessary resources. Cuts in previous years to the OCFO budget have made it

impossible to perform these additional functions within our existing resources. To do so would compromise our ability to support core functions and deliverables such as revenue estimation, tax collection, treasury functions, budget and CAFR production.

I am confident that the proposed FTE level of 927 will ensure our ability to meet both our core obligations and to successfully implement the new initiatives as required. I believe that we will continue to be successful in accomplishing our goals and maintaining our effectiveness in FY 2014 and beyond.

To that end, we are maximizing our investments in technology. For example, the tax office, our most labor-intensive unit, is becoming increasingly more automated, as evidenced by its robust fraud prevention programs, enhanced matching and enforcement initiatives, internal-control enhancements, and annually increasing electronic filing. During the current season, 79 percent of all returns received to date have been filed electronically. Investments in improved information technology comprise our capital budget – including modernizing ITS by FY 2015.

As you review the OCFO's FY 2014 budget request, I ask the committee to keep our record of fiscal prudence and efficiency in mind. It is imperative that the District maintain its capability to perform core financial functions: keeping the books, financing its operations, and collecting the maximum amount of revenue that it is due.

OCFO OVERARCHING GOALS

As the Chief Financial Officer, my primary objective – indeed, my duty -- is to preserve and enhance the overall financial stability of the District. My colleagues and I work towards this objective consistently, in activities such as reliably estimating revenues, exercising control of the budget, and improving internal controls, all of which help maintain and strengthen the District's standing with its residents, the financial community and the Congress.

We keep six key goals in mind in formulating our budget, and they are as follows:

1. Protect and Enhance District Revenues
2. Maintain Financial Controls and Safeguard Assets
3. Produce Reliable Revenue Estimates
4. Assure Balanced Budgets

5. Prepare Audited Comprehensive Annual Financial Reports with clean audit opinions.
6. Manage Debt Effectively

In each case, the achievement of these goals is absolutely necessary to maintain and increase the District's financial independence. We will assist the Mayor and program officials in executing the proposed budget for FY 2014 efficiently and effectively so that the District meets its goals. My colleagues will testify in detail about these goals as they relate to their specific areas of responsibility. I will briefly address the issues of financial controls, revenue estimation, and debt management.

Maintain Financial Controls and Safeguard Assets

Protecting District assets requires the maintenance of internal checks and balances, effective internal audits, and the maintenance of systems to record and check financial transactions. Written policies and procedures are also an important element of a well-designed and effective system of internal controls, as they provide management the opportunity to establish workflows and processes that address potential risks.

In a complex and diverse government such as ours, the revision and development of financial policies and procedures is an ongoing effort. An OCFO cross-agency project team ensures the District-wide financial policies and procedures manual remains updated, and that manuals for each cluster and central agency remain current.

Much work has been done to date to strengthen the control structure at OTR and throughout the OCFO, and this work continues. Our Chief Risk Officer leads the control effort and works in close collaboration with agency management and internal auditors to address control gaps where they exist and ensure that our assets are properly safeguarded.

Produce Reliable Revenue Estimates

Conservative revenue estimates are at the heart of a balanced budget and adequate cash flow. A conservative revenue-estimating philosophy recognizes that economic forecasting is an inexact science and that the economic environment can change very quickly, so that even during boom years, our revenue estimates err on the side of avoiding a deficit in an economic downturn. Quarterly revision of the estimates enables the District to adjust its budget during the fiscal year in response to changing circumstances.

The District's economic and fiscal prospects have strengthened over the past year, despite a somewhat lackluster national recovery. Last month, my office released a new revenue certification showing an additional \$190 million in FY 2013, \$178 million in FY 2014, \$178 million in FY 2015, and \$199 million in FY 2016. The estimate for FY 2013 through FY 2016 has incorporated the impact of current federal law requiring sequestration of federal expenditures beginning March 1, 2013.

February 2013 Revenue Estimate Compared to Previous Estimate

	Estimate			Projected	
Local Source, General Fund Revenue Estimate (\$ millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Previous Revenue Estimate	5,865.1	5,957.0	6,095.2	6,250.6	-
Revisions to Estimate	190.0	177.8	178.2	198.8	-
February 2013 Revenue Estimate	6,055.1	6,134.8	6,273.4	6,449.4	6,574.0
<i>Percent change from previous year</i>	<i>1.5%</i>	<i>1.3%</i>	<i>2.3%</i>	<i>2.8%</i>	<i>1.9%</i>

Despite this improvement, Federal cutbacks still pose a threat to the District's revenue outlook. As you know, the Federal government is a key driver of the District's economy. Federal civilian employees account for about 28 percent of all wage and salary employment in the District, and 34 percent of all wages and salaries paid in the city. About 75,000 District residents, or 25 percent of

all employed DC residents, are employed by the Federal government. In Fiscal Year 2010, the Federal government spent a total of \$62 billion in the District in salaries and wages, procurement, grants, retirement and other benefits, and other direct payments. This represents about 60 percent of the District's gross state product, compared to 33 percent in Maryland and 32 percent in Virginia.

The District also faces other downside risks, including financial market shocks from the ongoing Euro-zone debt crisis, the possibility of a slowing or reversal of a still fragile economic recovery, possible disruptions to oil supplies in the Middle East, and, given our status as the nation's capital, the ongoing threat of a national security event.

DEBT MANAGEMENT AND BOND RATINGS

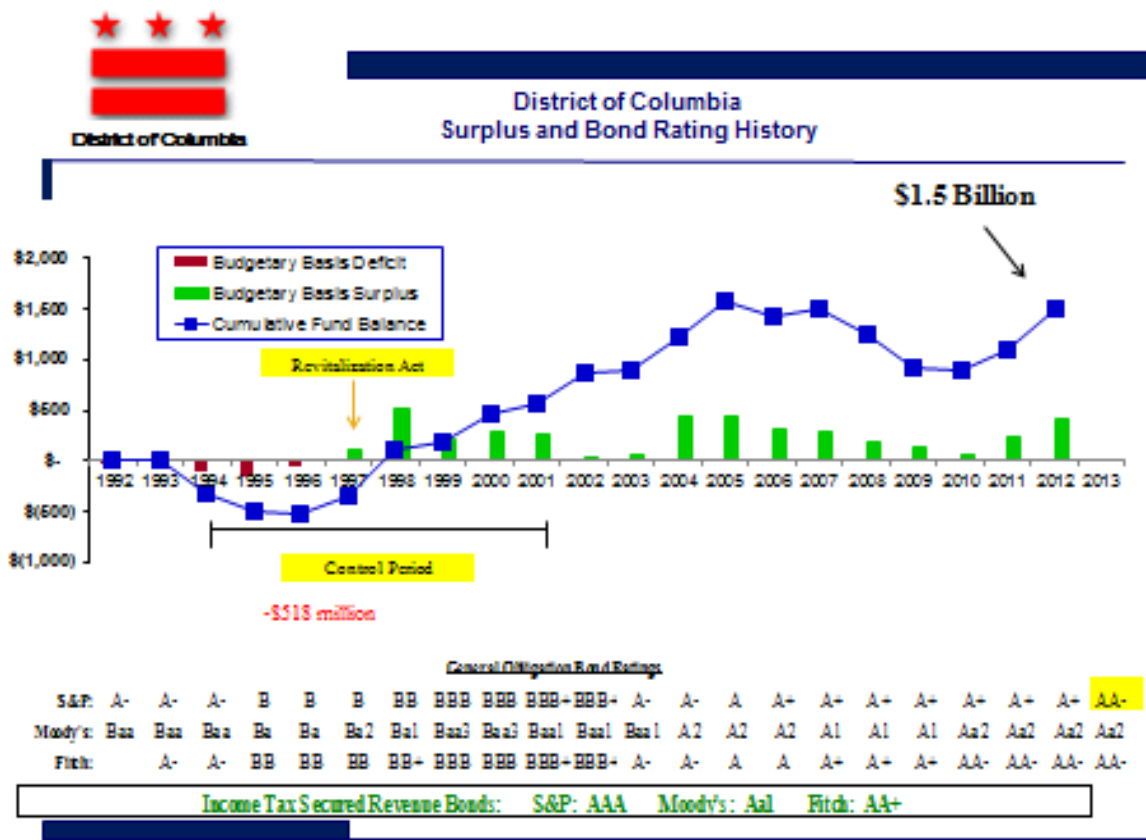
Last month, Standard & Poor's (S & P) Ratings Services raised its rating on the District of Columbia's general obligation (GO) bonds from 'A+' to 'AA-', with a stable outlook. The upgrade reflects S&P's view that the District's financial position has strengthened due to its sound financial policies and practices, recent strong revenue performance, as well as the rebuilding of reserves in accordance

with our recently adopted reserve policies. The District's GO bonds are now in the double-A category with all three ratings agencies.

The District's Income Tax Secured Bonds (ITSB) are currently rated triple-A by S&P, Aa1 by Moody's, and AA+ by Fitch.

These high ratings are testament to the sound economic and financial policies that the District has followed for over the past dozen years. As you are well aware, Mr. Chairman, these unprecedented ratings follow a dramatic recovery - - from junk bond status and a half a billion dollar cumulative deficit in the mid 1990s to the highest ratings ever on District bonds and our current \$1.5 billion fund balance. (See Figure 3 below)

Figure 3



Our steadfast objective is to sustain the high bond ratings we have achieved thus far and to continue to make financial strides that will increase the District's creditworthiness and long-term financial viability.

CONCLUSION

The continuing leadership provided by the Mayor, by you, Chairman Evans, and the Council has enabled the District to weather the economic crisis of the past, and provided a sound foundation to meet the challenges that lie ahead. The OCFO is committed to doing everything that it can to support continued financial improvements in the City in FY 2014 and beyond.

This concludes my remarks. I would be pleased to answer any questions you may have.

**CENTRAL FINANCIAL
OPERATIONS -
Deputy CFOs**

Office of Budget and
Planning (OBP)
Gordon McDonald

Office of Finance and
Treasury (OFT)
Jeffrey Barnette

Office of Financial
Operations and
Systems (OFOS)
Anthony Pompa

Office of Revenue
Analysis (ORA)
Fitzroy Lee

Office of Tax and
Revenue (OTR)
Stephen Cordi

Government of the District Columbia

Office of the Chief Financial Officer

Organizational Chart

D.C. CHIEF FINANCIAL OFFICER
Natwar M. Gandhi

Chief of Staff
Angell Jacobs

Chief Risk Officer
Kathy Crader

EXECUTIVE SUPPORT

General Counsel
David Tseng

Integrity and Oversight
Executive Director
Mohamad Yusuff
(Interim)

Economic Development Finance
Senior Advisor and Director
John Ross

Senior Financial Policy Advisor
Vacant

Agency Chief Information
Officer
Sagar Samant

Management and
Administration Executive
Director
Paul Lundquist

Public Affairs Officer
David Umansky

**AGENCY FINANCIAL
OPERATIONS - Associate
CFOs**

Economic Dev. and
Regulation
Cyril Byron, Jr.

Government Operations
Mohamed Mohamed

Government Services
George Dines

Human Support
Services
Delicia Moore

Public Safety and
Justice
Angelique Hayes

Education
Deloras Shepherd

Not-for-Profit Hospital
Corporation
Michael Davis

DC Lottery
Buddy Roogow
Executive Director

EventsDC
Henry Mosley

**Agency Fiscal
Officers**

DCRA: Conrad Bridges
DHCD: Andree Chan-Mann
DISB: Bright Ahaïwe
DMPED: Conrad Bridges
OPC/PSC: Gurmeet Scoggins

EOM/DCHR: James Hurley
DCPL: Tammie Robinson
DGS: Massimo Marchioni
OAG: Victoria Syphax
DOES: Natalie Mayers
OFRM: Curtis Lewis
OCA: Paul Blake
OCTO: Phil Peng
DCOA/ORM: Shilonda Wiggins

DDOE: Robert Jose
DDOT: Calvin Skinner
DMV: Kimberly L. Borges
DPW: Perry Fitzpatrick

CFSA: Justin Kopca
DDS/ODR: Delicia Moore
DHS: Hayden Bernard
DMH: Joyce Jeter

DOH: Vacant
DHCF: Darrin Shaffer
DPR: Barbara Roberson
DYRS: Janine Fletcher
HBX: Keith Fletcher

DOC: Antionette
Hudson-Beckham
FEMS: Daryl Staats
MPD: Leroy Clay
OCME/CJCC: Vacant
OUC/EMA: Ashraf El-Khatib

UDC: Gina Dash, *acting*
DCCSB: Alonzo Montalvo
DCPS: Deloras Shepherd
OSSE: Deloras Shepherd

DCLB: Keisha Paxton
(Interim)

Office of the Chief Financial Officer

FY 2011 - FY 2014 Operating Budget and FTEs, Evolution By Program

Operating Budget (\$000)

Program	FY 2011 Approved		FY 2012 Approved		FY 11 - FY 12 % Change		FY 2013 Approved		FY 12 - FY 13 % Change		FY 2014 Mayor's		FY 13 - FY 14 % Change	
	FTEs	Budget	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars
Management	74	8,328	70	8,539	-5.4%	2.5%	69	8,695	-1.4%	1.8%	69	8,896	0.0%	2.3%
Financial Ops & Systems	98	11,044	92	10,711	-6.1%	-3.0%	92	11,173	0.0%	4.3%	97	12,733	5.4%	14.0%
Budget Devt & Execution	45	5,373	42	5,404	-6.7%	0.6%	42	5,818	0.0%	7.7%	42	5,874	0.0%	1.0%
Research and Analysis	27	3,470	25	4,229	-7.4%	21.9%	26	4,705	4.0%	11.3%	26	3,913	0.0%	-16.8%
Office of Tax & Revenue	482	56,814	470	56,282	-2.5%	-0.9%	481	59,388	2.3%	5.5%	511	57,507	6.2%	-3.2%
Chief Information Officer	82	23,027	78	20,662	-4.9%	-10.3%	78	21,081	0.0%	2.0%	78	21,418	0.0%	1.6%
Treasury Operations	75	16,952	71	16,740	-5.3%	-1.3%	79	21,254	11.3%	27.0%	83	23,115	5.1%	8.8%
Integrity and Oversight	22	4,392	21	4,799	-4.5%	9.3%	21	4,399	0.0%	-8.3%	21	4,432	0.0%	0.8%
TOTAL	905	129,400	869	127,366	-4.0%	-1.6%	888	136,513	2.2%	7.2%	927	137,888	4.4%	1.0%

Office of the Chief Financial Officer
FY 2011 - FY 2014 Operating Budget and FTEs, Evolution By Fund
Operating Budget (\$000)

BUDGET BY FUND (\$000)														
	FY 2011 Approved		FY 2012 Approved		FY 11 - FY 12 % Change		FY 2013 Approved		FY 12 - FY 13 % Change		FY 2014 Mayor's		FY 13 - FY 14 % Change	
Fund	FTEs	Budget	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars	FTEs	Budget	FTEs	Dollars
Local	722	87,824	783	94,642	8.4%	7.8%	806	100,306	2.9%	6.0%	840	105,651	4.3%	5.3%
Federal (150/200)	0	0	0	0	-100.0%	0.0%	0	0	0.0%	0.0%	0	0	0.0%	0.0%
Other	140	33,792	41	24,932	-70.7%	-26.2%	44	29,140	7.3%	16.9%	44	24,387	0.0%	-16.3%
Intra-District	43	7,784	46	7,792	5.8%	0.1%	38	7,067	-16.5%	-9.3%	43	7,850	13.2%	11.1%
TOTAL	905	129,400	869	127,366	-4.0%	-1.6%	888	136,513	2.2%	7.2%	927	137,888	4.6%	1.0%

Revenue Proposals for OCFO Implementation

(\$ thousands)

	FY 2014	FY 2015	FY 2016	FY 2017
Revenue Source	Original	Projected	Projected	Projected
SALES / USE	2,900	2,900	2,900	2,900
Automated and Federal Revenue Initiatives	2,900	2,900	2,900	2,900
INCOME TAX	9,100	7,500	5,500	5,500
Automated and Federal Revenue Initiatives	1,500	1,500	1,500	1,500
Programming to Enhance Income Tax Match Programs and Improve Payment Plan Compliance	7,600	6,000	4,000	4,000
GROSS RECEIPTS	-	-	-	-
Ballpark Fee - Expansion of Enforcement Efforts	1,500	275	275	275
All Proposals	13,500	10,675	8,675	8,675